The PC Market in Germany

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Summary

Despite low levels of growth in the overall German economy over the last several years, the PC market in Germany is alive and well. Increased business spending, fierce competition between vendors, and attractive price points have continued to stimulate desktop and laptop sales in the consumer and SME market. In 2003, the German PC market began to show encouraging signs, and returned to positive unit shipment growth. Demand was driven by strong price declines across all products. In 2004, the market continued to benefit from an increase in commercial investment. The PC market grew by 7.2% that year, and vendors sold a total of 8.78 million computers, 34% of which were laptops.

The German PC market in 2004 will continue to experience positive growth rates through 2005. The need for upgrades should drive this positive trend, and pricing in particular will be a key volume generator in all market segments. Vendors sold 2.65 million PCs in the first quarter of 2005, an increase of 7% from the first quarter of 2004. The commercial segment grew by six percent compared to an 8% increase in the consumer segment during this period. The German PC market is forecast to reach EUR 9.3 billion in 2007, while the overall IT market in Germany is expected to grow at 9.4% through 2006 to reach EUR 75.2 billion.

Market Highlights

Fierce competition between vendors, a marked shift towards laptops in both the consumer and SME segments, and increased business investment in upgrades have defined the German PC Market in 2004. A weak overall economy has brought on cautious consumer spending, forcing vendors to implement very competitive pricing strategies.

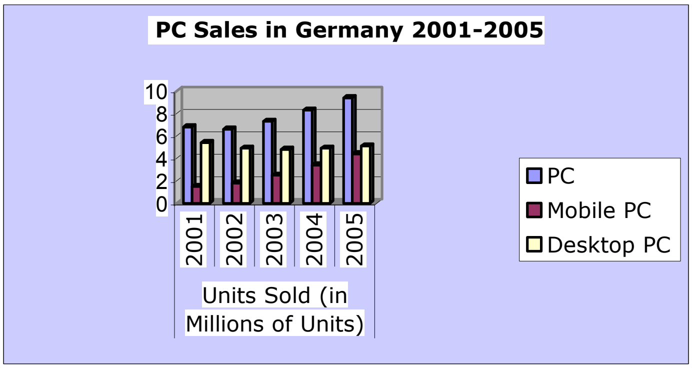
In the 2004 desktop market, Fujitsu-Siemens is still the leading supplier followed by Medion, the Aldi Supermarket chain supplier (the only Top-5 company to lose market share in 2004). Hewlett Packard remained in third position but double-digit growth place them very close to Medion. The commercial segment in particular has been fueling desktop sales, resulting from corporate and SME spending on much needed upgrading, which started in early 2004. This segment remained strong at 9.4% growth over the entire year. Aggressive marketing campaigns promoting tailored hardware systems and technical support directed at SMEs are prominent. On the consumer side, however, the desktop market was not nearly as robust, showing only 3.1% growth between 2003 and 2004. Although new digital entertainment applications, attractive bundles and competitive pricing continue to drive the PC market, demand for desktops has been shrinking due to the ongoing shift towards laptops. Additionally, there has been a noticeable increase in the popularity of new Media Centers, although this product still accounts for small sales volumes.

Market Analysis and Statistical Data

Chart 1: Overview of PC Sales in Germany 2001-2005

	Units Sold (Million)					Growth %			
	2001	2002	2003	2004	2005	2001-Feb	2002-Mar	2003-Apr	2004-May
PC	6.8	6.6	7.3	8.3	9.4	-2.7	10	13.7	13.3
Mobile PC	1.5	1.8	2.5	3.4	4.4	-18.5	44.8	33	29
Desktop PC	5.4	4.9	4.8	4.9	5.1	-8.5	-2.5	3.5	2.5

Source: Gartner / IDC / Industry Sources



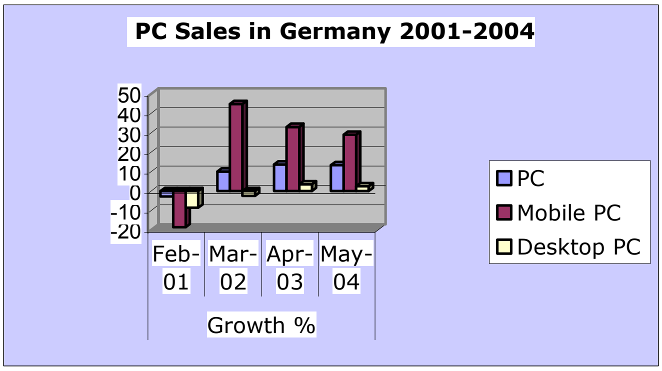


Chart 2: German PC Sales 2003 - 2004 (Desktops and Laptops)

Company	Units 2003	Market %	Units 2004	Market %
Fujitsu-Siemens	1,356,184	16.6	1,559,455	17.8
Medion	916,080	11.2	867,977	9.9
HP	778,769	9.51	862,815	9.8
Acer	526,694	6.44	772,440	8.8
Dell	90,835	6.0	611,162	7.04
Other (26)	4,124,305	50.3	4,104,912	46.7
Total	8,192,867	100	8,778,761	100

Source: Gartner / IDC / Industry Sources

Chart 3: German Desktop Market 2003-2004

Company	Units 2003	Market %	Units 2004	Market %
Fujtisu Siemens	1,025,452	18.9	1,056,328	19.6
HP	540,291	10.0	643,534	11.4
Medion	672,869	12.4	588,876	10.9
Dell	326,821	6.0	413,090	26.4
Maxdata	204,145	3.8	219,170	4.1
Other	2,492,728	48.9	2,650,430	46.3
Total	5,420,008	100	5,385,618	100

Source: Gartner / IDC / Industry Sources

Chart 4: German PC-Market Q1/2005: Unit Sales and Market Percentage

Company	Q1/2005	Market%	Q1/2004	Market %	Growth
Fuji/Siemens	426,937	18.9	362,113	17.1	17.9
Acer	220,553	9.8	182,365	8.6	20.9
Medion	220,000	9.7	242,200	11.5	-9.2
HP	218,999	9.7	204,260	9.7	7.2
Dell	176,600	7.8	152,375	7.2	15.9
Others	997,612	44.1	968,914	45.9	3.0
Total	2,260,701	100.0%	2,112,227	100.0%	7.0%

Source: BITKOM

Chart 5: German PC Market Share Q1 2005

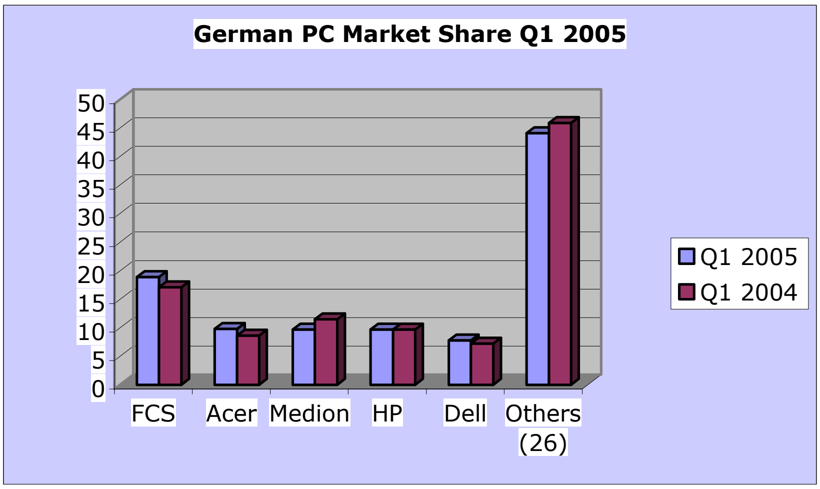


Chart 6: US Exports of Computers to Germany

1 QTR 2005	4 QTR 2004
USD 63,133,139	USD 62,147,173

Source: U.S. International Trade Commission

Market Entry

Because of Germany's membership in the Information Technology Agreement (ITA) there are no tariffs on imports of computer hardware into Germany. The ITA is a multilateral trade agreement that requires participants to eliminate tariffs on particular IT and telecommunications products, including computer hardware and peripherals.

Normal customs requirements for export documentation apply to exports of computer hardware to Germany, which are usually limited to a document in support of the customs value. In most cases, merely the shipping invoice is sufficient. For items valued under EUR 1,000, only an invoice and waybill are required. For goods valued at EUR 1,000 and above, the German importer is must obtain an import certificate (*Einfuhrnachweis*). The majority of software and computer-related products are exempt from custom duties. A general overview of customs issues can also be obtained by visiting the following web page: www.export.gov (TIC Trade Information Center, U.S. Department of Commerce).

An import-turnover tax is applied but is passed on to the final consumer as a value-added tax (VAT). VAT in Germany is currently 16% and applies equally to European and German competitors.

For more information, go to:

http://web.ita.doc.gov/ITI/itiHome.nsf/6502bd9adeb499b285256cdb00685f77/54fb9d6e25e3962385256d2b004c39f5!OpenDocument

One non-tariff barrier exists in the form of the CE mark (*Conformite Europeene*), which certifies that a product meets EU health and safety standards. This effects a wide range of products, including machinery, electronics, medical devices, and telecommunications equipment. All companies – whether they are located in Europe, the United States, or elsewhere – have to meet CE mark requirements in order to sell their goods in the European market. Thus, CE mark product certification is crucial for U.S. companies exporting to Europe. Once a product receives the CE mark, a manufacturer can market it throughout the EU without further product modification.

For more information on the CE certification, visit:

http://www.ita.doc.gov/td/tic/ce_mark/ceindex1.htm

Distributors

There are more than 80,000 retailers in Europe that supply companies of various sizes operating in markets with different sector structures. Specialist IT retail has been expanding since 2000 due to investment in upgrades in the commercial segment. As a result, demand is growing for IT partnership and specialist retail programs. In recent months, many manufacturers and distributors of IT products have developed such programs aimed at strengthening loyalty between retailers and providers. On average, specialist IT retailers receive their products from around six different distributors, and Western Europe has a high level of concentration of distributors. However, a number of niche providers, who offer a comprehensive range of IT products, have established themselves in the last few years. Specialist retailers in Germany buy IT products from an average of eight different sources, putting them on top of the European league table.

Copyright Levy

Germany is one of several European countries that collect special copyright levies on the sale of electronic copying devices, such as blank audio and videocassettes. The government introduced the levies to compensate copyright holders for lost royalties from private copying of music, images and films. In December 2004, following a suit filed by VG Wort against Fujitsu Siemens seeking EUR 30 (USD 41) for each new computer sold in the country as compensation for digital copying, the District Court in Munich ruled that Fujitsu Siemens must pay a copyright levy on all new PCs it produces. However, the court agreed to only a EUR 12 levy. This is the first levy of its kind on the continent for PCs. VG Wort plans to apply the decision to all PC vendors in Germany. Manufacturers regard the levy as a de facto tax on PCs, which could negatively impact consumer segment computer sales.

Environmental Legislation

The European Union enacted the *Waste from Electrical and Electronic Equipment* (WEEE) and the *Restriction of the Use of Certain Hazardous Substances* (RoHS) directives on 13

February 2003. These pieces of legislation focus primarily on reducing environmental problems arising and the waste from the use of certain hazardous substances in electrical and electronic equipment (EEE). On 23 February 2005, Germany integrated both directives into its own laws with the *Act Governing the Sale, Return and Environmentally Sound Disposal of Electrical and Electronic Equipment*, known as the *ElektroG*. The IT sector is one of the industries effected under the new legislation, in addition to products such as small and large household appliances, lighting equipment, electrical and electronic tools, toys, sports and leisure equipment, medical products, monitoring and control instruments, and automatic dispensers.

The *ElektroG* establishes significant new responsibilities for companies wishing to sell their products in the German market. For most producers, registration with a clearinghouse is now a prerequisite to selling goods in Germany. Furthermore, firms are now responsible for collecting, recycling and disposing of the waste from their products after they have been sold to consumers. The EU directives will thus have a major impact on companies exporting IT goods into the German and the European market and it is important for effected U.S. firms to familiarize themselves with them

Highlights of ElektroG Regulations

- The *ElektroG* legislation stipulates that EEE should be produced in such a way that allows easy disassembly, recycling, recovery, and reuse. Design and production methods should not prevent the reuse of EEE.

- From July 1, 2006 onwards, new EEE put on the market may not contain more than 0.1 percent of lead, mercury, hexavalent chromium, polybrominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE) and 0.01 percent cadmium. This will affect product design in many sectors, including IT.

- Producers must create a clearinghouse for administering registration, product take-back and financial guarantee responsibilities. In addition, producers selling must also register with the German federal government's clearinghouse, the *Elektro Altgeräte Register* (EAR). Registration with the EAR started in June 2005 and must be completed online by 23rd November 2005 www.stiftung-ear.de (German only).

- Each producer must provide an annual financial guarantee to the EAR for B2C products it puts on the market after 13 August 2005. This guarantee is used in case of a company's insolvency to cover the take-back and disposal of the firms' EEE from private households. B2B products do not require a financial guarantee, however.

- It is the producer's responsibility to take back, recycle, or dispose of the waste from its products, as well as to finance all of these procedures. Municipalities are responsible for the initial collection of WEEE from private households. Thereafter, the producer is responsible for retrieving the waste from municipal collection points. Firms may subcontract their take-back and treatment responsibilities with a recycling firm or build their own recycling facilities.

For more in-depth information, go to: www.buyusa.gov/germany/en/weee.html

Or contact:

BITKOM- Federal Association for Information Technologies,
Telecommunications and New Media
Albrechtstrasse 10

10711 Berlin
Phone: [49] (0) 30-27576-0
www.bitkom.org

For the Actual Legislation (in German), go to:
http://www.umwelt-online.de/cgi-bin/parser/Drucksachen/drucknews.cgi?texte=0053_2D05#h19

Trade Promotion Opportunities
Trade fairs play a major role in the marketing of ICT products in Germany. The world's premier ICT show, "CeBIT," is held annually in Hannover, and maintains an office in the United States. Further information can be obtained from:

Deutsche Messe AG
Messegelaende
D-30521 Hannover
Germany
Tel: + 49 –511 89 0
Fax: + 49 –511 89 32 626
www.cebit.de

or

Hannover Fairs USA, Inc.
212 Carnegie Center
Princeton, NJ 08540
Tel: (609) 987 1202
Fax: (609) 987 8810
www.hfusa.com/cebit
www.cebit-events.com

Relevant Websites:
German E-Commerce Association (www.eco.de)
Association for Electrical, Electronic and Informational Technologies (www.vde.de)
European Committee for Standardization (www.cenorm.de)
National Institute of Standards and Technology (www.nist.gov)
European Committee for Electrotechnical Standardization (www.cenelec.org)

For More Information

The U.S. Commercial Service Germany can be contacted via e-mail at: Berlin.office.box@mail.doc.gov, website: http://www.buyusa.gov/germany/en/.

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